



Financial Statements
December 31, 2011 and 2010
Richmond Lake Sanitary District

Richmond Lake Sanitary District

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December 31, 2011 and 2010

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Independent Auditor's Report

The Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

We have audited the accompanying statements of net assets of the Richmond Lake Sanitary District as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Richmond Lake Sanitary District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and this report should be considered in assessing the results of our audits.

Aberdeen, South Dakota
July 20, 2012

Richmond Lake Sanitary District
Statements of Net Assets – Proprietary Fund
December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Assets		
Current Assets		
Cash and deposits	\$ 159,728	\$ 170,670
Accounts receivable	9,597	11,029
Notes receivable - current portion	6,475	12,253
Taxes receivable - current	25,892	23,901
Taxes receivable - delinquent	761	384
Inventories	24,911	19,154
Certificate of deposit	53,045	51,500
Total current assets	280,409	288,891
Property and Equipment, at Cost		
Piping and appurtenances	840,629	840,629
Lift stations	212,803	212,803
Residential pump stations	440,932	440,932
Fencing and gates	37,594	37,594
Manholes	105,843	105,843
Pond structures	15,024	15,024
Wastewater stabilization pond facility	191,023	191,023
Pumps, panels, and septic tanks	97,301	84,292
Office furniture and equipment	11,823	11,823
Buildings	899	899
Land rights and easements	21,000	21,000
Construction in process	3,333	10,000
	1,978,204	1,971,862
Accumulated depreciation	(983,013)	(906,863)
Total property and equipment, at cost	995,191	1,064,999
Other Assets		
Notes receivable - noncurrent portion	15,879	21,665
Security deposit	64	64
Prepaid storage	385	220
Total other assets	16,328	21,949
	\$ 1,291,928	\$ 1,375,839

Richmond Lake Sanitary District
Statements of Net Assets – Proprietary Fund
December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Unearned revenue	\$ 24,485	\$ 18,954
Accounts payable	28	26,747
Payroll taxes payable	1,685	4,105
Total current liabilities	26,198	49,806
Net Assets		
Invested in capital assets, net of related debt	995,191	1,064,999
Unrestricted	270,539	261,034
Total net assets	1,265,730	1,326,033
	<u>\$ 1,291,928</u>	<u>\$ 1,375,839</u>

Richmond Lake Sanitary District
Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Fund
Years Ended December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Operating Revenue		
Hook-up fees	\$ 5,000	\$ 18,000
User fees	110,374	95,795
Late fees	1,460	1,234
Septic tank replacement fees	19,321	11,920
Miscellaneous income	547	-
Maintenance fees	5,630	14,056
Total operating revenue	142,332	141,005
Operating Expenses		
Wages	18,022	19,264
Professional fees	20,544	21,041
Debt service expense	0	-
Postage and office supplies	1,364	982
Insurance	4,677	2,932
Utilities	4,964	5,027
Public notices and elections	177	464
Taxes	1,379	1,709
Printing	50	-
Repairs and maintenance	101,978	126,724
Miscellaneous expense	360	100
Bank service charges	484	418
Mileage	1,516	1,587
Office rent	5,400	5,400
Sales tax	330	173
Storage fee	495	660
Bad debt expense	1,788	-
Depreciation	76,150	75,803
Total operating expenses	239,678	262,284
Operating Loss	(97,346)	(121,279)
Nonoperating Revenues (Expenses)		
Interest income	3,873	3,549
Grant income	6,000	-
Taxes	27,170	25,269
Total nonoperating revenues (expenses)	37,043	28,818
Change in Net Assets	(60,303)	(92,461)
Net Assets, Beginning of Year	1,326,033	1,418,494
Net Assets, End of Year	\$ 1,265,730	\$ 1,326,033

Richmond Lake Sanitary District
Statements of Cash Flows – Proprietary Fund
Years Ended December 31, 2011 and 2010

	Enterprise Fund	
	2011	2010
Operating Activities		
Receipts from customers	\$ 149,295	\$ 127,747
Payments to employee	(21,821)	(18,232)
Payments to suppliers	(166,768)	(132,942)
Net Cash used for Operating Activities	(39,294)	(23,427)
Noncapital Financing Activities		
Taxes received	24,802	36,091
Net Cash from Noncapital Financing Activities	24,802	36,091
Capital and Related Financing Activities		
Purchase of capital assets	(16,342)	(14,680)
Grant proceeds	6,000	-
Net Cash used for Capital and Related Financing Activities	(10,342)	(14,680)
Investing Activities		
Interest received	2,328	3,155
Principal payments received on notes receivable	11,564	11,645
Net Cash from Investing Activities	13,892	14,800
Net Change in Cash	(10,942)	12,784
Cash at Beginning of Year	170,670	157,886
Cash at End of Year	\$ 159,728	\$ 170,670
Reconciliation of Operating Income to Net		
Cash used for Operating Activities	\$ (97,346)	\$ (121,279)
Operating loss		
Charges and credits to operating loss not affecting cash:		
Depreciation expense	76,150	75,803
Changes in assets and liabilities:		
Accounts receivable	1,432	(463)
Inventories	(5,757)	15,819
Other assets	(165)	-
Unearned revenue	5,531	(12,795)
Accounts payable	(16,719)	16,747
Accrued liabilities	(2,420)	2,741
Net Cash used for Operating Activities	\$ (39,294)	\$ (23,427)
Noncash Investing, Capital and Financing Activities		
Purchase of capital assets in accounts payable	\$ -	\$ 10,000

See Notes to Financial Statements

Note 1 - Significant Accounting Policies

The accounting policies of Richmond Lake Sanitary District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the District should include all component units over which the District exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based on criteria of GASB Statement No. 14, no legally separate organizations were determined to be part of the reporting entity.

Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and reporting.

The statements of net assets and revenues, expenses and changes in net assets present the business-type activities of the District, which are all of the financial activities and represent the government-wide and fund financial statements.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with a proprietary fund's principal ongoing operations. The District records all revenues derived from fees as operating revenues since these revenues are generated from the District's daily operations needed to carry out its purpose. Operating expenses include administrative, operating and maintenance expenses related to operation of the District's sanitary system.

In accordance with Governmental Accounting Standards Board Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting"*, the District applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements for its proprietary funds. The District does not apply FASB statements on interpretations issued after November 30, 1989. The District uses the accrual basis of accounting.

Enterprise Fund: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as enterprise funds.

The District has one enterprise fund, which is reported as a major fund, to record the transactions related to operating a sanitary sewer system through fees and charges to users of the system.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The enterprise fund is presented used the economic resources measurement focus and the accrual basis of accounting.

Capital Assets

All capital assets are valued at historical cost. Interest costs incurred during construction of capital assets are capitalized along with other capital asset costs. The District’s capitalization policy is \$400. Depreciation of all exhaustible capital assets used by the proprietary funds is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over estimated useful lives using the straight-line method as follows:

Piping and appurtenances	50 years
Lift and residential pump stations	5-20 years
Fencing, gates, manholes, pond structures, and septic tanks	20 years
Wastewater pond facility	20 years
Pumps and control panels	5-7 years
Office furniture and equipment	5-20 years
Buildings	39 years
Land rights and easements	99 years

Accumulated Unpaid Vacation and Sick Leave

Vacation and sick leave are not earned by employees of the District.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Unearned Revenues

Unearned revenues represent user, hookup, and maintenance fees received in advance.

Statements of Cash Flows

The District considers all amounts held in checking and savings accounts to be cash for purposes of the statements of cash flows.

Accounts Receivable

Accounts are charged-off as they are deemed uncollectible based on a periodic review of the accounts. The amount charged as bad debt in 2011 and 2010 was \$1,788 and \$0, respectively. At December 31, 2011 and 2010, no allowance for uncollectible accounts was considered necessary, as uncollectible amounts are not material.

Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO).

Net Assets

Equity is classified as net assets and is displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Application of Net Assets

It is the District’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense incurred for purposes for which both restricted and unrestricted net assets are available.

Septic Tank Replacement Fee

The septic tank replacement fee is a monthly charge for all users. The money is then used to replace septic tanks when needed.

Rounding

Computer generated rounding variances exist in the financial statements. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits And Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk – Deposits

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6 A-3.

The actual bank balances at December 31, 2011 and 2010 were as follows:

	2011	2010
Insured (FDIC/NCUA)	\$ 213,579	\$ 215,387
Total deposits	<u>\$ 213,579</u>	<u>\$ 215,387</u>

The District's carrying amounts of deposits at December 31, 2011 and 2010 were \$212,773 and \$222,170, respectively.

Investments

In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2011 and 2010, the District did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The District also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

Note 3 - Organization

An election on June 16, 1992 authorized the District to operate a sanitary sewer system pursuant to South Dakota Codified Law (SDCL) 34A-5-41. In accordance with SDCL 34A-5-14.1, the District is governed by an elected three-member Board of Trustees.

Note 4 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. The District's property tax revenues are recognized in accordance with the accrual basis of accounting. The District is permitted by state statute to levy taxes. The District has elected to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the District.

	2011	2010
General Fund		
Agricultural property	\$ 0.667	\$ 0.70
Owner occupied	0.667	0.70
Nonagricultural property	0.667	0.70

Note 5 - Notes Receivable

The District has notes receivable from property owners within the District for debt service assessments relating to construction of the system. The notes accrue interest at 5.75% and are due at varying dates in the future depending on the repayment terms selected by the property owners. The notes are presented in the financial statements as follows:

	2011	2010
Current portion	\$ 6,475	\$ 12,253
Noncurrent portion	15,879	21,665
	<u>\$ 22,354</u>	<u>\$ 33,918</u>

Note 6 - Changes in Capital Assets

A summary of changes in capital assets for the years ended December 31, 2011 and 2010 are as follows:

Proprietary Fund	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in process	10,000	-	6,667	3,333
Total capital assets not being depreciated	11,000	-	6,667	4,333
Capital assets being depreciated:				
Piping and appurtenances	840,629	-	-	840,629
Lift stations	212,803	-	-	212,803
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	15,024	-	-	15,024
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	84,292	13,009	-	97,301
Office furniture and equipment	11,823	-	-	11,823
Land rights	20,000	-	-	20,000
Buildings	899	-	-	899
	1,960,862	13,009	-	1,973,871
Less accumulated depreciation	906,863	76,150	-	983,013
Total capital assets being depreciated, net	1,053,999	(63,141)	-	990,858
Proprietary fund activities capital assets, net	\$ 1,064,999	\$ (63,141)	\$ 6,667	\$ 995,191
Total depreciation expense - proprietary fund activities				\$ 76,150
Proprietary Fund	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in process	-	10,000	-	10,000
Total capital assets not being depreciated	1,000	10,000	-	11,000
Capital assets being depreciated:				
Piping and appurtenances	840,629	-	-	840,629
Lift stations	212,803	-	-	212,803
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	15,024	-	-	15,024
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	69,612	14,680	-	84,292
Office furniture and equipment	11,823	-	-	11,823
Land easements	20,000	-	-	20,000
Buildings	899	-	-	899
	1,946,182	14,680	-	1,960,862
Less accumulated depreciation	831,059	75,804	-	906,863
Total capital assets being depreciated, net	1,115,123	(61,124)	-	1,053,999
Proprietary fund activities capital assets, net	\$ 1,116,123	\$ (51,124)	\$ -	\$ 1,064,999
Total depreciation expense - proprietary fund activities				\$ 75,803

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2011 and 2010, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance benefits to its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; automobile liability; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have never exceeded the liability coverage.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims from these risks have never exceeded the liability coverage.

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District elected not to designate equity for the payment of future unemployment benefits. During the years ended December 31, 2011 and 2010, no claims for unemployment benefits were paid. At December 31, 2011 and 2010, no claims had been filed for unemployment benefits and none are anticipated in the next year.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

We have audited the financial statements of the Richmond Lake Sanitary District (the District) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 20, 2012. These financial statements are the responsibility of the District's management. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the summary schedule of prior and current audit findings, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and another that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the summary schedule of prior and current findings as item 2011-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described on the summary schedule of prior and current audit findings as item 2011 -2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the summary schedule of prior and current audit findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, the governing board and management of the Richmond Lake Sanitary District, South Dakota and is not intended to be, and should not be, used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
July 20, 2012

Prior Audit Findings

2010-1 Finding - Preparation of Financial Statements and Footnotes and Significant Journal Entries

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Status: The finding has not been corrected and has been restated as current audit finding 2011-1.

2010-2 Finding - Lack of Segregation of Duties

There was a lack of segregation of duties in the revenues, expenditure and payroll functions due to the size of the District.

Status: The finding has not been corrected and has been restated as current audit finding 2011-2.

Current Audit Findings

Finding 2011-1 - Preparation of Financial Statements and Footnotes and Significant Journal Entries

Material Weakness

Condition: Richmond Lake Sanitary District requested the external auditors to assist in the preparation of the financial statements and related footnotes. As part of the financial statement preparation process, we proposed a material audit adjustment that was not identified as a result of the District's existing internal controls and; therefore, could result in a misstatement of the District's financial statements.

Criteria: The District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The District does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to propose material journal entries.

Effect: This condition may affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

Finding 2011-2 - Lack of Segregation of Duties

Significant Deficiency

Condition: Richmond Lake Sanitary District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Board of Trustees exercise adequate oversight of the accounting function.

Management's Response: Management accepts the risk associated with lack of segregation of duties in the District.